Design Considerations for Legalizing Cannabis

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Also based on interactions with decision makers

- Washington State Liquor Cannabis Board
- State of Vermont
- New York’s Regulated Marijuana Workgroup
- Uruguay’s Junta Nacional de Drogas
- Canada’s Legalization Task Force
### Design considerations for legalizing cannabis: The 14 P's

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Source: Under review; update of Kilmer, 2014
**Design considerations for legalizing cannabis: The 14 P’s**

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2. Profit Motive
3. Power
4. Promotion
5. Prevention & Treatment
6. Policing & Enforcement
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Source: Under review; update of Kilmer, 2014
Production costs will plummet with legalization

- Reduce the risk of arrests and violence
  - Reuter & Kleiman, 1986

- Increasing returns to scale if large grows allowed
  - Caulkins, 2010; Kilmer et al., 2010

- Easier to leverage changes in technology

- Competition will drive down costs
Colorado prices for pound of cannabis dropping

Source: Colorado Department of Revenue, 2018
Price drop is especially severe in Oregon

Source: Cannabis Benchmarks, September 2018
Price drop is especially severe in Oregon

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Source: Under review; update of Kilmer, 2014
Many alternatives to current supply prohibition

Prohibit but decrease sanctions

Communal own-grow & distribution

Gov’t operates the supply chain

Non-profit organizations

Very few monitored for-profit licensees

Repeal prohibition without regulation

Prohibit and increase sanctions

Allow adults to grow their own

Retail sales only (“Dutch model”)

Public authority (“Near monopoly”)

For-benefit companies

Standard commercial model

Source: Caulkins, Kilmer, Kleiman et al., 2015. Considering Marijuana Legalization. RAND
Commonly-discussed options in the U.S.

- Prohibit but decrease sanctions
- Standard commercial model

Source: Caulkins, Kilmer, Kleiman et al., 2015. *Considering Marijuana Legalization*. RAND
Middle-ground options (small scale)

- Communal own-grow & distribution
- Allow adults to grow their own
- Retail sales only ("Dutch model")

Source: Caulkins, Kilmer, Kleiman et al., 2015. *Considering Marijuana Legalization*. RAND
Middle-ground options (large scale)

- Gov't operates the supply chain
- Non-profit organizations
- Very few monitored for-profit licensees
- Public authority ("Near monopoly")
- For-benefit companies

Source: Caulkins, Kilmer, Kleiman et al., 2015. *Considering Marijuana Legalization*. RAND
Multiple approaches within the middle ground

- For some jurisdictions, it will be a destination
- For others it may be part of an incremental move
- Not mutually exclusive
  - E.g., Wholesale=State monopoly; Retail=Cooperatives (Wilkins, 2016)
  - Important for provinces/states that allow local discretion
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Source: Under review; update of Kilmer, 2014
Price of cannabis matters for many outcomes

• Size of illicit market

• Consumption

• Tax revenues

• Profitability of licensed businesses
  – Employment
  – Wealth generation
Retail prices falling in Washington

Source: RAND analysis of Washington’s Traceability System
Federal legalization = Dramatic market changes

• Federal prohibition creates headaches for cannabis companies, but it keeps many in business
Federal legalization = Dramatic market changes

- Federal prohibition creates headaches for cannabis companies, but it keeps many in business
- Can produce all of the THC consumed in US on a few dozen farms in Iowa . . .
  - Caulkins, Kilmer, & Kleiman (2016)
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Federal legalization = Dramatic market changes

- Federal prohibition creates headaches for cannabis companies, but it keeps many in business

- Can produce all of the THC consumed in US on a few dozen farms in Iowa . . .
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- . . . or in another country

- And if Amazon is eventually allowed to distribute . . .
Some options to elevate price

Government stores
Some options to elevate price

- Set the price
- Government stores
Some options to elevate price

Set minimum price

Set the price

Government stores
Some options to elevate price

- Levy taxes, but beware
- Set minimum price
- Set the price
- Government stores
Some options to elevate price

- Require rigorous testing
- Levy taxes, but beware
- Set minimum price
- Set the price
- Government stores
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Source: Under review; update of Kilmer, 2014
Concluding thoughts

- Many choices, must acknowledge the tradeoffs
- Overall consequences of changes in cannabis policy will depend on the use of other substances
- Short- and long-run effects could be different
- Reasonable folks can disagree about cannabis policy